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C O N F I D E N T I A L AIT TAIPEI 000808

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TAGS: ECON ETRD EAGR PROG PREL TW CH
SUBJECT: VICE PRESIDENT SIEW OUTLINES TAIWAN ECONOMIC
POLICY AGENDA

REF: TAIPEI 731 (NOTAL)

Classified By: Robert S. Wang, Acting AIT Director, for reasons 1.4 (b)
and (d).

¶1. (C) SUMMARY. In a June 10 meeting with ADIR and visiting
AIT/W Director for Trade and Commercial Policy, Vice
President Vincent Siew said the Ma administration is now
concentrating on inflation control, stimulating domestic
demand, and expanding cross-Strait economic ties through
implementing weekend charter flights and increasing the
number of Mainland tourists. Taiwan must work to "normalize"
cross-Strait economic relations, said Siew, a process he
estimated would take at least three-to-four years. Siew
asserted that South Korean protests have made it politically
difficult for Taiwan to secure rapid market opening for the
full range of U.S. beef imports. ADIR emphasized the
importance of addressing beef and other priority bilateral
trade concerns as a precursor to a successful U.S.-Taiwan
Trade and Investment Framework Agreement (TIFA) meeting in
Taipei this September. END SUMMARY.

¶2. (SBU) The meeting took place at the Office of the Vice
President. Vice President Vincent Siew was accompanied by
Ministry of Economic Affairs (MOEA) Bureau of Foreign Trade
(BOFT) Second Bilateral Trade Division Section Chief Jason
Hsu, MOEA BOFT Second Bilateral Trade Division U.S. and
Canada Trade Officer Kate Liao, and a staff aide. Vice
Presidential Chief of Staff Francis Liang was present for the
beginning of the meeting. Acting Director and AIT Washington
Director for Trade and Commercial Policy Francis Ruzicka were
joined by Economic Chief (notetaker).

Cross-Strait economic agenda

¶3. (C) Outlining the Ma administration's overall economic
priorities, Siew stressed that Taiwan must avoid economic
isolation by pursuing a policy of openness, including
enhancing its economic relationship with the U.S. Siew
emphasized the importance of stimulating domestic demand, and
said the administration's success in that area would depend
on maintaining consumer confidence in the face of rising

inflation (reftel) and enhancing cross-Straits economic links.

Successful negotiations with the PRC to implement cross-Straits weekend charter flights and increase the number of Chinese tourists visiting Taiwan, in particular, will help boost domestic spending and consumer confidence. Siew estimated that the charter flight and tourism measures could increase Taiwan's annual GDP growth rate by roughly 1 percentage point.

¶4. (C) Responding to a question from Ruzicka, Siew observed that a cross-Straits common market is "a long way in the future," and will "probably not be reached in my lifetime." Instead, he emphasized, Taiwan's "most important" task is to "build up mutual trust" with the PRC and "normalize economic relations" across the Taiwan Strait, a process Siew estimated would take "at least three or four years." According to Siew, the Ma administration "does not have any illusions" that cross-Straits relations will improve to the extent that all problems will be resolved. Instead, he observed, Taiwan must pursue a patient, incremental policy of gradual improvement in its relations with the PRC. Siew mentioned that Taiwan's ASEAN trading partners all say they are waiting to see the results of efforts to improve cross-Straits economic ties before considering how to enhance their own economic relations with Taiwan. Improved relations with Beijing will give Taiwan a chance to participate in regional economic integration, noted Siew.

¶5. (C) After implementing passenger flights and raising the limit on Mainland tourist visits, explained Siew, Taiwan's cross-Straits economic priorities will shift to setting up mechanisms for air and sea cargo, and to increasing financial market integration with the PRC. According to Siew, the PRC is unlikely to pursue its obligations with Taiwan within the WTO, as doing so would require internal coordination with the Foreign Ministry, a step the PRC's officials responsible for Taiwan would prefer to avoid. Ruzicka thanked Siew for Taiwan's decision to support the U.S. as a co-complainant in its WTO action involving the Information Technology Agreement (ITA), a policy the Office of Trade Negotiation (OTN) shared with Ruzicka and visiting USTR representatives the previous day.

Infrastructure program and WTO GPA accession

¶6. (C) Siew mentioned that his new duties as Vice President will require him to spend a great deal of time on unfamiliar areas such as culture and sports, rather than the economic issues on which he has concentrated in the past. He noted that many foreign equity funds are showing interest in the Ma administration's twelve major infrastructure projects, which will be the subject of an investment promotion campaign later in the year. The projects will be incorporated in next year's official budget, added Siew. After Ruzicka highlighted the importance of Taiwan's accession to the WTO Government Procurement Agreement (GPA), Siew said he has asked the Ministry of Public Works to devise more transparent procurement policies. Siew indicated that he has not yet focused on the WTO GPA issue, and noted that the Cabinet has primarily been concentrating on inflation control, domestic demand, and cross-Straits relations.

Health care reform

¶7. (C) Alluding to Siew's past role in helping to establish Taiwan's national health insurance program, Ruzicka urged the Vice President to address reform of a health care system that lacks accountability and leads to significant discrepancies between the cost of original drugs and the official reimbursement price. Siew noted that Taiwan's national health scheme is mired in deficit, and said he has asked the Ministry of Health to reform the system.

Beef market access

¶ 8. (C) Ruzicka stressed the importance of assuring the prompt opening of Taiwan's market to the full range of U.S. beef imports, consistent with OIE standards. Siew cited ongoing South Korean protests and a recent demonstration by Taiwan farmers against efforts to revise fertilizer prices in asserting that the issue is "too sensitive" to be resolved in the immediate future. Ruzicka emphasized the OIE's science-based criteria indicating that bone-in and other restricted forms of beef are safe for human consumption, and underscored White House and Congressional interest in opening the Taiwan market to affected U.S. beef exports. Siew said he is unfamiliar with the details of the beef issue, but maintained that the issue is "highly politically sensitive in Korea and Taiwan" and "has to be cooled down" before Taiwan can address the problem.

TIFA agenda

¶ 9. (C) The Acting Director noted U.S. interest in preparing a strong, positive agenda for the Trade and Investment Framework Agreement (TIFA) talks tentatively scheduled for September in Taipei. Taiwan's ability to resolve outstanding concerns regarding beef, GPA, and other priority trade issues would help demonstrate its ability to pursue a productive TIFA agenda and enhance economic relations with the U.S. Siew observed that the relevant ministries now have varying degrees of familiarity with the U.S.-Taiwan economic agenda, and expressed a general hope for improved bilateral economic ties based on a "new framework to consolidate our relations."

ADIR and Ruzicka noted that the TIFA already exists as the primary vehicle for improving bilateral economic relations, and progress will best be made by achieving progress on outstanding priorities in that forum.

¶ 10. (C) COMMENT. Siew and Ruzicka have known each other for many years, and the meeting was formally billed as a private exchange between old friends and colleagues. Domestic and cross-Straits concerns are at the center of Siew's economic policy agenda, and he appeared less familiar with the current U.S.-Taiwan economic and trade agenda. Siew's invocation of the South Korean protests as cause for caution on beef market-opening has been echoed by other Taiwan officials in recent days, and will complicate our efforts to achieve progress on that front. END COMMENT.

WANG